

**Testimony of**  
**Mr. Christopher Shaffer**  
**Past Chairman, Wheat Export Trade Education Committee and U.S. Wheat Associates**

**Before the House of Representatives Committee on Agriculture**

*Review of the Administration's proposals for the Free Trade Area of the Americas and their  
impact on United States Agriculture*

**On Behalf Of**  
**Wheat Export Trade Education Committee**  
**National Association of Wheat Growers**  
**U.S. Wheat Associates**

**May 23, 2001**

Good Morning Chairman Combest, Members of the Committee. My name is Christopher Shaffer and I am a wheat producer from Walla Walla, Washington. I have served as the elected Chairman of the Wheat Export Trade Education Committee, the trade policy arm of the wheat industry, and of U.S. Wheat Associates, the industry's foreign market development and promotion organization. In November of 1998, I was elected to represent U.S. wheat producers on trade negotiations and to serve as the wheat producer representative on the Agricultural Policy Advisory Committee (APAC).

Let me begin by highlighting two points that wheat producers in the United States take into account when looking at the world market. First, 96 percent of the world's consumers live beyond our border. The four percent within the United States do not consume enough wheat to sustain a viable wheat industry as we know it now.

Second, we consistently export nearly 50 percent of our total production. As you can imagine, our success or failure hinges on the ability of U.S. wheat to be exported around the world. Trade is a vital component for ensuring the financial viability of U.S. wheat farmers and the Western Hemisphere offers outstanding potential.

The U.S. wheat industry strongly supports moving forward aggressively in both the World Trade Organization (WTO) and Free Trade Area of the Americas (FTAA) negotiations. The WTO

process is important for liberalizing world wheat trade, and the U.S. wheat industry is clearly focused on achieving our goals in this round of negotiations. However, the FTAA negotiations have the potential to extend beyond the level of liberalization achieved in the WTO and the U.S. must be prepared to take full advantage of this opportunity.

Additionally, a key element of the FTAA process is the potential to foster Hemispheric alliances in such a way that they will carry over to the WTO negotiations where differences on a number of issues are extremely contentious. We believe that a strong commitment in the Hemisphere will be a very positive force against the protectionist positions taken by the European Union. This is a golden opportunity to send a strong clear message to the rest of the world that not only the United States, but all of the democracies in the Western Hemisphere, will oppose any attempt to hide trade barriers behind guises such as the "precautionary principal" or multifunctionality.

Although pressured by some Latin American countries, the U.S. must refrain from negotiating on domestic supports within the context of the FTAA. It would be unwise to unilaterally disarm within the hemisphere while leaving the EU to continue subsidizing their producers at high levels. We concur with the U.S. position encouraging the countries within the Hemisphere to "work together in the WTO to substantially reduce and more tightly discipline trade-distorting domestic support."

U.S. Wheat producers are poised to take advantage of the opportunities offered by the FTAA. However, in order to achieve the benefits of a FTAA several important issues must be addressed during the negotiating process. Negotiations on areas such as market access, state trading enterprises, export subsidies, and sanitary/and phytosanitary issues must result in freer and fairer trade among the 34 democracies of the Western Hemisphere.

### **The FTAA Market**

The benefit of opening markets to free trade can clearly be seen in the dramatic increase in wheat exports following the North American Free Trade Agreement (NAFTA). U.S. wheat exports to Mexico and Central America have doubled over the past ten years and we average a market share of about 55 percent. Imports into the region during 2000 totaled 7.5 million metric tons (MMT) and are valued at \$1.1 billion with imports from the U.S. accounting for 4.0 MMT (\$630 million). While Mexico and the Central American region are marked by success, the South American region is marked by a struggle for market access and market share.

U.S. wheat exports to South America have been about 2 MMT for the past ten years. Conversely, Argentina's exports within the region have gone from 1.6 MMT to 8.2 MMT. The total value of exports to the region is \$1.6 billion with the total value of U.S. exports amounting to just \$220 million. This region is also anticipating a five percent growth rate in wheat imports.

Brazil alone imports 7.9 MMT of wheat. Despite a U.S. logistical advantage to northern Brazil, Argentina dominates this lucrative market. This pattern repeats for most of the South American region.

The FTAA must be negotiated so that we have duty-free access to Brazil, along with all other markets in Latin America. Brazil may be the largest wheat importer in the world this year, but we face a tariff differential versus MERCOSUR member Argentina that puts U.S. wheat at an unfair disadvantage. Just as NAFTA has allowed us to double our wheat exports to Mexico, FTAA will give us access on par with Argentina and Canada to the entire hemisphere and the growing economies of 800 million people.

### Market Access

U.S. wheat producers agree with the U.S. FTAA negotiating position that the tariff methods and modalities agreed to must be "fair and reasonable" to "ensure the benefits of free trade are broadly distributed." However, it must be taken into account that the average U.S. tariff on agricultural imports is about five percent, while in the rest of the world it exceeds 50 percent. Reducing high tariffs must be a priority in the FTAA discussions.

Tariffs in developing countries are frequently set at very high levels in order to protect domestic producers. These tariffs can also be quite erratic in terms of how they are applied. The developing countries need to be encouraged to reduce their tariffs in order to receive the benefits of a more open economy.

We also agree with the U.S. proposal to use the lower of either a product's most favored nation (MFN) applied rate in effect during the negotiations or the World Trade Organization (WTO) bound rate at the end of the FTAA negotiating process. This will ensure that the reduction made will substantially open markets to U.S. products. Whichever rate is used it should become a bound rate to add stability in the region.

In addition to negotiations on tariffs, action must be taken to address problems in tariff rate quota (TRQ) administration and price band systems.

Those countries that administer TRQ'S do so in a variety of ways, from auctioning to allocation of licenses to producer groups, which clearly hinder U.S. exports. The duties outside the quotas need to be targeted for reduction. Additionally, the fill-rate of tariff quotas appears to be very low among some countries, resulting in part from TRQ administration. To correct this problem, the U.S. may want to consider an incentive-based system to encourage increased imports where fill rates are low.

The price band system that has been utilized fairly extensively in Latin America needs to be eliminated in favor of a system of tariffs. The tariffs need to be set at reasonable levels and should not constitute a new barrier to imports. At this time Chile is the principal user of the price band system for wheat.

It is our understanding that the stated objective of the price band is to stabilize domestic prices by reducing transmission of international price fluctuations into domestic markets, while at the same time maintaining a long-term linkage between domestic and international prices.

In operation, the price band mechanism typically results in the application of a surcharge in U.S. dollars equal to the difference between a weekly reference price and an administratively set floor price level. These surcharges, when applied, are in addition to the ad valorem duty applied on nearly all imports. We would like to see the immediate elimination of the existing price band mechanisms for wheat and flour, and the staged reduction of the ad valorem duty to zero.

We concur with the U.S. market access "Tariffs and Non-Tariff Measures Text," which proposes a level playing field by requiring all FTAA countries to grant "national treatment" to products from other FTAA countries, reductions in the cost of doing business in the Hemisphere, the elimination of import and export restrictions and increasing transparency.

### **Export Competition**

The U.S. wheat industry agrees with the U.S. position that calls for the elimination of all trade-distorting export subsidies within the Hemisphere and the establishment of a mechanism that would prohibit "agricultural products from being exported to the FTAA by non-FTAA countries with the aid of export subsidies."

However, we support the use of the Export Enhancement Program (EEP) until such time as the European Union agrees to eliminate all export subsidies and the Canadian Wheat Board (CWB) agrees to eliminate unfair pricing practices by allowing competition to its' state mandated monopoly. EEP has been idle since 1995, but should remain as a viable part of U.S. leverage to bring about changes in the CWB and the EU. Additionally, we support the use of EEP funding by the Secretary of Agriculture for foreign market development and promotion activities.

Also, we believe it is important that the U.S. continues to aggressively defend the use of export credits and international food aid. We support the consideration by U.S. negotiators that these programs are not export subsidies. We support a U.S. commitment to distribute a consistent level of food assistance without disrupting commercial sales. This would deflate concerns that these programs are used to offset low prices.

In addition to export subsidies, the U.S. wheat industry was very encouraged by the U.S. position on state trading enterprises within the Hemisphere. The Canadian Wheat Board (CWB) operates a state-mandated export monopoly for western grown Canadian wheat. It controls virtually every aspect of wheat production in the Western Canadian provinces, including varietal control, day-to-day execution of sales contracts and long-term market development. It is the largest grain marketing board in the world, handling about 20 percent of world wheat and barley trade.

To put it into perspective, recall the Cargill acquisition of Continental's grain business. Together, the two merged companies control roughly 20 percent of U.S. wheat exports, or about 228 million bushels, based on a five-year average. In contrast, the CWB controls annual average wheat exports of 680 million bushels, or about three and a half times as much as Cargill and Continental combined.

As a government-supported grain buying agency, the CWB uses discounted price offers, bonus deliveries, supplemental cleaning, delayed payments, indirect transportation subsidies, and other favorable contract terms to often undercut U.S. grain prices. None of these options can be provided by private companies that face commercial risk and stockholder oversight. The impact of this system is particularly devastating in third country markets where the U.S. and Canada compete.

While we are very optimistic about the Western Hemisphere for market growth, U.S. wheat producers have had numerous problems with specific provisions of previous trade agreements in the Hemisphere. First, the Canada-U.S. Free Trade Agreement of 1988 (CUSTA) resulted in memorializing trade inequities between U.S. and Canadian farmers. Regrettably, CUSTA talks to open the CWB marketing system to competition were unsuccessful. Worse, the CUSTA actually gives the CWB an advantage over U.S. wheat producers in the U.S. market. The CUSTA negotiators allowed Canada to export wheat to the United States at no less than the Canadian Wheat Board's "cost of acquisition."

After implementation of the CUSTA it was learned that the CWB's cost of acquisition was agreed to be equivalent to the CWB's initial price. That is the payment level that the CWB provides to its growers when they deliver wheat to the pool. According to CWB documents, the

initial price amounts to about 80 percent of the final price farmers in Canada receive for their wheat after all pool accounts are balanced.

We believe that the inequities made in the CUSTA have resulted in the injurious surge of wheat exports from Canada to the United States. Over the last decade, this issue has been one of the single biggest sources of contention along the U.S.-Canada border and one that continues today.

Additionally, while we are extremely pleased by the outcome of the bilateral market access agreement in the NAFTA between the U.S. and Mexico, none of the Canadian trade issues that the wheat industry asked to be re-addressed in the NAFTA were resolved. We must not let these be allowed to be carried over into the FTAA as we level the playing field in the Hemisphere.

Last year the North Dakota Wheat Commission filed a Section 301 petition with the Office of the U.S. Trade Representative (USTR). USTR initiated an investigation of the CWB under section 301 at the urging of the Wheat Export Trade Education Committee, the National Association of Wheat Growers, U.S. Wheat Associates, the American Farm Bureau Federation, the National Farmers Union and every state wheat commission.

Under section 301, the U.S. government has twelve months to investigate the practices in question and negotiate a remedy. If a negotiated solution cannot be reached, Section 301 authorizes retaliation.

The U.S. industry has made specific, realistic suggestions for addressing the underlying problems with the CWB. Our particular focus has been ending the state-mandated monopoly and subjecting the CWB to market discipline.

The section 301 case is intended to work in conjunction with multilateral negotiations over export state trading entities. A solution through the section 301 process could be used as a model for disciplining these entities in these negotiations.

### **Sanitary and Phytosanitary Measures (SPS)**

The proliferation of sanitary/phytosanitary issues has resulted in the slowing or in some cases, the cessation of trade in Central and Latin America. We must build upon the Uruguay Round Agreement on Agriculture with respect to plant, health and safety. In particular, negotiations to expand the NAFTA into a Hemispheric agreement must establish a risk assessment framework, as well as the creation of an accepted and expedited procedure for addressing sanitary/phytosanitary disputes when they arise among signatories to the FTAA. We also feel that trade in new technologies is adequately addressed in the SPS/TBT agreements of the World Trade Organization and should not be revisited in these negotiations.

### **Labor and Environmental Standards**

The U.S. wheat industry is concerned about the implications of the effort to link other issues such as environmental and labor concerns to trade. We are especially concerned about any proposal to use trade as an enforcement mechanism, through the imposition of sanctions, in pursuing goals in these or other areas, however desirable the goals may be.

A successful outcome to the FTAA negotiations is vital to the long-term health of Americas' farmers and ranchers and agriculture throughout the hemisphere. These negotiations can ultimately achieve unfettered access to vast markets in Latin America for U.S. wheat producers as well as improve regional stability and economic well being. Please do not hamper this

opportunity by placing undue burdens on trade negotiators who are seeking the best possible deal for our farmers and ranchers.

The importance of environmental protection and labor standards is without question; however, those concerns may be more appropriately addressed in other forums and by other methods than through FTAA negotiations. Any mention of environment and labor must not hinder negotiating leverage or impinge on the goals of trade liberalizing negotiations. This would reassure our trading partners that the U.S. does not intend to use sanctions to "bully" them into relinquishing their sovereignty with respect to environmental and labor standards.

FTAA negotiations represent a great opportunity for the advancement of free and fair trade in our hemisphere. U.S. wheat producers encourage you to ensure that environmental and labor issues do not hinder that opportunity.

### **Conclusion**

The wheat industry is very pleased by the U.S. Position on Agriculture presented to the FTAA Negotiating Group on Agriculture in Buenos Aires. We believe that the U.S. is headed in the right direction. However, the work towards consensus will not be easy. The strong stand taken by leaders in Quebec City sent a very positive signal. Now the FTAA negotiating groups must move forward at an aggressive pace to reach a successful conclusion and begin implementation by 2005.

To facilitate these negotiations, the wheat industry believes that Congress should move quickly to grant trade promotion authority to the President that is unencumbered by environmental or labor provisions. Granting this authority would send a strong signal to our trading partners that the U.S. will continue its leadership role in promoting free and fair trade around the world. The potential for altering already negotiated positions, due to a lack of trade promotion authority, will give our trading partners great pause before they make politically difficult decisions to dismantle trade barriers and open domestic markets to U.S. products.

All facets of American agriculture, from producers to you on the Agriculture Committees must be included in the negotiating process. The U.S. wheat industry is committed to playing an active role and we look to you to provide guidance and oversight as our negotiators move forward.

We stand ready to work with you and the administration towards a successful outcome of these negotiations in order to realize the market potential of an FTAA and solidify alliances with our neighbors.

Thank you for the opportunity to appear before you today. I will be happy to answer questions at the appropriate time.